

## Message Text

LIMITED OFFICIAL USE

PAGE 01     DACCA 04510 311034Z

20

ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04

SIL-01 L-03 H-02 DODE-00 PA-01 PRS-01 AGR-05 IO-13

/103 W

----- 050836

R 310900Z AUG 76

FM AMEMBASSY DACCA

TO SECSTATE WASHDC 1889

LIMITED OFFICIAL USE DACCA 4510

E.O. 11652: N/A

TAGS: EFIN, ECON, EAGR, IMF, BG

SUBJECT: BANGLADESH: IMF STANDBY AGREEMENT FOR 1976/77 AND DEVELOPMENT

EXPENDITURES

REF: DACCA 4219

1. AN IMF MISSION LED BY CQ CHABRIER VISITED BANGLADESH IN AUGUST AND REACHED A REFERENDUM AGREEMENT ON A STANDBY AGREEMENT FOR THE FISCAL YEAR BEGINNING JULY 1, 1976. THIS WILL BE THE SECOND CONSECUTIVE YEAR OF SUCH AGREEMENTS WITH THE BDG. THE FOLLOWING REPORT, GIVEN US IN CONFIDENCE BY IMF RESREP, ASSUMES THE STANDBY WILL BE FORMALLY APPROVED BY THE IMF IN WASHINGTON.

2. THE MAIN ELEMENTS OF THE AGREEMENT ARE SIMILAR TO THOSE FOR 1975/76:

(A) PRICE STABILITY: NO BUDGET DEFICIT. THE TEAM RECEIVED ASSURANCES AT THE MOST SENIOR LEVELS OF THE BDG'S FIRM COMMITMENT TO A BALANCED BUDGET. PUBLIC SECTOR BORROWING WILL RISE SEASONALLY

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02     DACCA 04510 311034Z

BY 500 MILLION TAKA THROUGH JANUARY, 1977 PRINCIPALLY TO FINANCE

FOODGRAIN PROCUREMENT AND THEN DECLINE BY THE SAME AMOUNT TO ZERO FOR THE FULL YEAR.

(B) CREDIT CEILINGS: COMPARABLE TO THE PROVISION OF THE 75/76 STANDBY, THE 76/77 ARRANGEMENTS PROVIDE FOR OVERALL CREDIT CEILINGS WITH SEVERAL CUTOFF POINTS DURING THE YEAR. THE TEAM ACCEPTED THE BDG PROPOSAL THAT GNP GROW BY 10 PERCENT, INCLUDING INFLATION; AND TOTAL LIQUIDITY BY 13 TO 15 PERCENT FOR THE YEAR AS A WHILE. THE BUDGET ASSUMES A 5 PERCENT REAL GROWTH OF GNP, THUS AN INCREASE OF 10 PERCENT WOULD ALLOW FOR 5 PERCENT INFLATION.

(C) BALANCE OF PAYMENTS. DESPITE A SHORTFALL IN HOPED-FOR AID COMMITMENT FOR 1976/77, THE STANDBY CALLS FOR NO BALANCE OF PAYMENTS DEFICIT OVER THE YEAR. BALANCE OF PAYMENTS EQUILIBRIUM CAN BE MAINTAINED, AND THE LIBERALIZED IMPORT PROGRAM ACHIEVED, THE IMF TEAM CONCLUDED, AS SERIOUS BDG DEBT SERVICING PROBLEMS LIE FURTHER AHEAD THAN ONE OR TWO YEARS. THE TEAM PRAISED THE BDG LIBERAL IMPORT PROGRAM AND EXPORT EFFORT.

(D) MID-TERM REVIEW. THERE WILL BE THE CUSTOMARY MID-YEAR REVIEW IN FEBRUARY, 1977.

3. MAJOR POLICY ISSUES: (A) AGRICULTURAL POLICY. THE IMF HAS STRONGLY ENCOURAGED AN AGGRESSIVE BDG FOODGRAIN PROCUREMENT POLICY, EMPHASIZING THAT THE GOAL OF A BALANCED BUDGET MUST NOT BE ACHIEVED BY CUTTING BACK ON PROCUREMENT. THE TEAM BELIEVES THAT THE MAJOR FACTOR INHIBITING FOODGRAIN PROCUREMENT LAST YEAR WAS A SHORTAGE OF STORAGE CAPACITY AND WELCOMED BDG PLANS TO INCREASE CAPACITY TO AROUND 1.1 MILLION METRIC TONS THIS YEAR. IN RESPONSE TO TEAM MEMBERS' DISAPPOINTMENT WITH THE SMALL AMOUNTS TO BE COLLECTED BY TAXING AGRICULTURAL INCOME, BDG OFFICIALS STRESSED THE IMPORTANCE OF MAKING A START AND ASSURED THE TEAM THAT THE TAX RATE WOULD BE GRADUALLY INCREASED IN FUTURE YEARS. GENERAL ZIA CALLED IT A "BREAKTHROUGH," EMPHASIZING THAT A TABOO HAD BEEN BROKEN AND SUCH

A TAX LEVIED FOR THE FIRST TIME.

(B) PUBLIC SECTOR ENTERPRISES. THE TEAM STRESSED THE IMPORTANCE OF INCREASING THE EFFICIENCY OF STATE ENTERPRISES AND EXPRESSED CONCERN OVER THE CONTINUING NEGATIVE FINANCIAL RETURNS FROM THE PUBLIC SECTOR. IN RESPONSE, BDG OFFICIALS POINTED TO THE RECESSION IN DEVELOPED COUNTRIES WITH REDUCED DEMAND AND LOW PRICES FOR JUTE GOODS. THE TEAM MEMBERS FELT THOSE ARGUMENTS WERE OUT OF DATE (RECESSION IS BEHIND US) AND SOMEWHAT IRRELEVANT -- THE PROBLEM LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03      DACCA 04510 311034Z

IS TO INCREASE OPERATING AND MANAGEMENT EFFICIENCY. THIS COULD BE A MAJOR ISSUE AT THE MID-TERM REVIEW.

4. COMMENT: THERE ARE TWO MAJOR UNCERTAINTIES IN THE BUDGET. ONE IS THE ISSUE OF AVOIDING DEFICIT FINANCING. THE BDG HAS ASSURED THE IMF THAT THE BUDGET WILL BE BALANCED, AND THE IMF HAS ACCEPTED THAT ASSURANCE, BUT BDG OFFICIALS DECLINED TO PREDICT HOW THEY WOULD ACHIEVE THAT BALANCE. THE SECOND ISSUE IS DEVELOPMENT OUTLAYS.

THE REVISED ESTIMATE FOR 1974/75 WAS 5.25 BILLION BUT THE ACTUAL AMOUNT SPENT TURNED OUT TO BE ONLY TAKA 3.9 BILLION; THE REVISED ESTIMATE FOR 1975/76 IS 8.5 BILLION, BUT WE BELIEVE THE ACTUAL WILL BE LOWER AS THE 1974/75 EXPERIENCE SUGGESTS. THE MAY, 1975 DEVALUATION FURTHER REDUCES THE REAL INCREASE. IN ANY CASE, WE DO NOT YET KNOW THE 1975/76 BASE FROM WHICH DEVELOPMENT EXPENDITURES ARE TO RISE TO THE 1976/77 BUDGETED LEVEL OF TAKA 11.4 BILLION. THE OUTLOOK APPEARS TO BE FOR A BALANCED BUDGET AT THE EXPENSE OF LOWER THAN ESTIMATED DEVELOPMENT OUTLAYS, BUT WITHOUT JEOPARDIZING FOODGRAIN PROCUREMENT.

BOSTER

LIMITED OFFICIAL USE

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOVERNMENT BUDGET, FINANCIAL PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 31 AUG 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** saccheem  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976DACCA04510  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760330-0208  
**From:** DACCA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t1976084/aaaaadab.tel  
**Line Count:** 126  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION NEA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 DACCA 4219  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** saccheem  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 07 JUN 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <07 JUN 2004 by ElyME>; APPROVED <04 OCT 2004 by saccheem>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** BANGLADESH: IMF STANDBY AGREEMENT FOR 1976/77 AND DEVELOPMENT EXPENDITURES  
**TAGS:** EFIN, ECON, EAGR, BG, IMF  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006